

12. Stock Exchange

Q.1 A) Select the correct answer from the options given below and rewrite the statements.

1. A stock exchange is where stock brokers and traders can buy and sell

- a) gold
- b) securities**
- c) goods

2. The is the first stock exchange to be recognized by the Indian Government under the Securities Contracts (Regulation) Act.

- a) BSE**
- b) NSE
- c) OTCEI

3. is a dealer in stock exchange who carries on trading of securities in his own name.

- a) Jobber**
- b) Broker
- c) Bull

4. A who expects fall in price of a securities.

- a) bull
- b) bear**
- c) jobber

5. The practice of buying and selling within the same trading day before the close of the market on that day is called

- a) insider trading
- b) day trading**
- c) auction

B) Match the pairs.

| Group 'A' | Group 'B' |
|----------------|--|
| a) SEBI | 1) Expects the price of shares rise in future. |
| b) Day Trading | 2) Expects the price of shares fall in future. |



| | |
|---------|--|
| c) Bull | 3) Buying and selling of securities within the same trading day. |
| d) Bear | 4) To protect the interest of investors in securities market. |
| e) BSE | 5) Buying and selling of securities to particular investors. |
| | 6) One of the oldest stock exchange in India. |
| | 7) To protect the interest of companies in securities market. |
| | 8) Buying and selling of securities within a week. |
| | 9) Newest Stock Exchange in India. |
| | 10) One who invests in new issues of securities. |

Ans:

| Group 'A' | Group 'B' |
|----------------|---|
| a) SEBI | 4) To protect interest of investors in securities market. |
| b) Day Trading | 3) Buying and selling within the same trading day. |
| c) Bull | 1) Expects the price of shares rise in future. |
| d) Bear | 2) Expects the price of shares fall in future. |
| e) BSE | 6) One of the oldest stock exchange in india. |

C) Write a word or a term or a phrase which can substitute each of the following statements.

1. A specific place where trading of securities is arranged in an organized method.

Ans: Share Market

2. The first stock exchange to be recognized by the Indian Government under the Securities Contracts Regulation Act.

Ans: Bombay stock exchange



3. A dealer in stock exchange who carries on trading of securities in his own name.

Ans: Jobber

4. A speculator who expects the price of shares rise in the future.

Ans: Bull

D) State whether the following statements are true or false.

1. A stock exchange is a reliable barometer to measure the economic condition of a country.

Ans: True

2. Bombay Stock Exchange is the oldest stock exchange in India.

Ans: True

3. A broker is a dealer in stock exchange who carries on trading of securities in his own name.

Ans: False

4. Bear is a speculator who expects the prices of shares rise in the future.

Ans: False

E) Complete the sentences.

1. The oldest Stock Exchange in India is the Bombay Stock Exchange

2. The largest and most modern stock exchange in India is the National Stock Exchange

3. A person who buys or sells shares on behalf of his clients is called as Broker

4. A speculator who expects fall in prices of shares Bear

F) Select the correct option from the bracket.

| Group 'A' | Group 'B' |
|--------------------------------|--|
| a) Regulator of capital market | 1) |
| b) | 2) Nifty |
| c) Jobber | 3) |
| d) | 4) Oldest Stock Exchange in the world. |



(London Stock Exchange, Index of NSE, SEBI, trades in securities in his own name)
Ans:

| Group 'A' | Group 'B' |
|---------------------------------|--|
| a) Regulator of capital market | 1) SEBI |
| b) Index of NSE | 2) Nifty |
| c) Jobber | 3) Trades in securities in his own name |
| d) London Stock Exchange | 4) Oldest Stock Exchange in the world. |

G) Answer in one sentence.

(1) What is Stock Exchange ?

Ans. Stock Exchange is a specific place where trading of the securities is arranged in an organised manner.

(2) Who is Broker ?

Ans. Broker is a member of a Stock Exchange who has license by stock exchange to buy or sell shares on behalf of his clients.

(3) Who is Jobber ?

Ans. A Jobber is a dealer in Stock Exchange who trades in securities in his own name.

(4) Who is Bull ?

Ans. A Bull is a speculator who purchase the securities with the intention to sell them at higher price later to earn profits.

(5) Who is Bear ?

Ans. A Bear is a speculator who expects fall in the price of a security and sells his securities to avoid further fall in prices.

(6) Who is Lame Duck ?

Ans. A Lame Duck is a bear broker whose expectations have gone wrong and makes a loss in his dealings.

(7) What is Trading Ring ?

Ans. The trading or auction of shares takes place on the floor of the Stock Exchange is known as Trading Ring.

(8) What is Sensex ?

Ans. Sensex is the index of the BSE which represents the increase or decrease in the price of stocks of selected 30 companies.

(9) What is Rally ?

Ans. If the Sensex or NIFTY moves in upward direction over a period of 14 to 20 trading sessions it is called Rally.

(10) What is Crash ?

Ans. If the Sensex or NIFTY moves in downward direction, it is called Crash.

[H] Correct the underlined words and rewrite the following sentences.

(1) One of the functions of SEBI is to protect the interest of issuers of securities in the securities market.

Ans. One of the functions of SEBI is to protect the interest of investors in the securities market.

(2) A Broker cannot directly deal with investors.

Ans. A Jobber cannot directly deal with investors.

(3) A Bear expects the prices of shares to rise in future.

Ans. A Bull expects the prices of shares to rise in future.

(4) A Bull buys new issues of securities from primary market.

Ans. A Stag buys new issues of securities from primary market.

(5) A stock market is an important constituents of money market.

Ans. A stock market is an important constituents of capital market.



Q.2 Explain the following terms/concepts.

(1) Stock exchange.

Ans. (1) A Stock Exchange is also called as a Secondary Market or Stock Market or Share Market or Share Bazar. Stock Exchange is an organized market for the purchase and sale of industrial and financial security. In other words, stock exchange is an organized market for buying and selling corporate and other securities.

(2) The Indian Securities Contracts (Regulation) Act of 1956, defines Stock Exchange as, "An association, organization or body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling business in buying, selling and dealing in securities."

(2) Broker

Ans. (1) The broker is a member of the stock exchange who deals outside the house for the purpose of bringing together his clients and jobber. In other words, he is an intermediary for his clients who cannot deal directly on the stock exchange. Broker thus transacts business in securities on behalf of his clients.

(2) He generally deals in a large variety of securities. He receives a commission from his clients in exchange for his services. He is an experienced agent of the public. He renders important functions in regard to deal with skilled jobbers directly.

(3) Jobber

Ans. (1) Jobber is the member of the stock exchange who performs important functions. He is an independent dealer in securities which are transacted in the market. He conducts the securities in his own name but he cannot deal directly with investors.

(2) In other words, jobber has to deal with a broker or another jobber. He is a professional speculator who has complete information regarding the particular shares he deals. The profit he makes is his income.

(4) Bull.

Ans. (1) He is a speculator who buys different types of shares in the expectations of rise in their price in the future. He may sell these securities at the expected higher price without their coming into his possession.



(2) He is regarded as a potential seller in reaping of his profit. He sustains losses if the prices fall instead of rising. In India, Bull is also known as Tejiwala.

(5) Bear.

Ans. (1) He is also speculator who sells various securities for the objective of taking advantages of an expected fall in the prices. He is always in a position to impose of security which he does not possess.

(2) In this way, he makes the profit on each transaction. He may suffer losses if the price of security rises by the date of delivery. In India, Bear is also known as Mandiwala.

Q.3. Study the following case / situation and express your opinion.

1) Mr. Y is a practising Co. Secretary offering advisory services to companies, institutions, etc. on corporate laws including companies Act. He has received few queries from his clients, please assist Mr. Y in answering them.

(a) BDI bank wants to offer DP services. Whom should they approach for registering as DP?

Ans. If BDI bank wants to offer DP services, they should approach SEBI for registering as DP.

(B) KM Financial wants to offer Debenture Trustee services. Where should they apply for getting registered?

Ans. If KM Financial wants to offer Debenture Trustee services, they should apply to SEBI for getting registered for Debenture Trustee services.

(c) TT Ltd. Co. wants to issue an IPO. Should it get itself registered with SEBI?

Ans. No. TT Ltd. Co. should not get registered with SEBI itself. TT Ltd. Co wants to issue an IPO, so it should get registered itself with Stock Exchange.

(2) Mr. P has recently got his B.Sc. degree. He has enrolled for a course in securities market. As a new student of this subject, he has few queries as follows:

(a) Does a Company need to be listed on a stock exchange to sell its securities through the stock exchange?

Ans. Yes. Every company needs to be listed on a stock exchange to sell its securities through the stock exchange.

(b) What is the term used for referring to a stock exchange's ability to reflect the economic conditions of a country?

Ans. The term used for referring to a stock exchange's ability to reflect the economic conditions of a country is 'Economic Barometer'.

(c) What is the term which refers to the functions of stock exchange as a provider of ready market for sale and purchase of security?

Ans. The term which refers to the functions of stock exchange as a provider of ready market for sale and purchase of security is "Mobilisation of Savings".

Q.4 Distinguish between the following.

1. Jobber and Broker.

| Jobber | Broker |
|--|--|
| (1) Meaning: Jobber is one who buys and sells securities in his own name. | Broker is an agent who deals in buying and selling of securities on behalf of his client. |
| (2) Nature of Trading: A jobber carries out trading activities only with the broker. | A broker carries out trading activities with the jobber on behalf of his investors. |
| (3) Restrictions on Dealings: A jobber is prohibited to directly buy or sell securities in the stock exchange. Also he cannot directly deal with the investors. | A broker acts as a link between the jobber and the investors. He trades i.e. buys and sells securities on behalf of its investors. |
| (4) Agent : A jobber is a special mercantile agent. | A broker is a general mercantile agent. |
| (5) Form of Consideration : A jobber gets consideration in the form of profit. | A broker gets consideration in the form of commission or brokerage. |

Q.6. Justify the following statements:

(1) The Securities and Exchange Board of India (SEBI) is the regulator for the securities market in India.

Ans. Justification:

(1) The Securities and Exchange Board of India (SEBI) was initially established as a non statutory body, i.e. it had no control over anything but later in 1992, it was declared an autonomous body with statutory powers.



(2) Thus, the SEBI was established in 1992 under the Securities and Exchange Board of India Act, 1992. The Securities and Exchange Board of India (SEBI) is the regulator of the capital markets in India.

(3) It plays an important role in regulating the securities market of India. It has its headquarters in Mumbai and has many regional and local offices all over India. Thus, the Securities and Exchange Board of India (SEBI) is the regulator for the securities market in India.

(2) Stock Exchanges work for the growth of the Indian economy.

Ans. Justification:

(1) A Stock Exchange is also called as a Secondary Market or Stock Market or Share Market or Share Bazar. Stock Exchange is an organized market for the purchase and sale of industrial and financial security.

(2) In stock exchange securities of various companies are bought and sold. Investors invest in companies which give good return on investments.

(3) Also, various companies invest in most productive investment projects. This leads to capital formation and economic growth.

(4) Thus, it is rightly justified that, stock exchanges work for the growth of the Indian economy.

Q.7 Answer the following questions.

1. Explain the functions of Stock Exchange.

Ans: FUNCTIONS OF STOCK EXCHANGE

1. Mobilisation of Savings : Stock markets are organised and regulated market which protects the interests of the investors. This encourages small and big investors to invest in securities through the stock exchange. It thus provides a ready market for buying and selling securities.

2. Capital formation : Investors in securities are attracted due to good returns on investments and capital appreciation. This attracts more investors to invest through the stock exchange. Corporates too can easily raise funds by offering various types of securities to meet the needs of different types of investors. Thus Stock exchange serves as a tool for capital formation.

3. Pricing of Securities : The stock market helps to value the securities on the basis of demand and supply factors. The securities of profitable and growth oriented companies are valued higher as there is more demand for such securities. The valuation of securities is useful for investors, government and creditors. The investors can know the market value of their investment. The creditors can estimate the credit worthiness of a company.

4. Economic Barometer : A stock exchange is a reliable barometer to measure the economic condition of a country. Every major change in country and economy is reflected in the prices of shares. The rise or fall in the share prices indicates the boom or recession cycle of the economy. Stock exchange is also known as a pulse of economy or economic mirror as it reflects the economic conditions of a country.

5. Protecting Interest of Investors : Stock exchange protects the interest of investors. In stock market only the listed securities are traded. Stock exchange allows listing only after verifying the soundness of company. The companies which are listed have to operate within the strict rules and regulations laid down by the stock exchange. This ensures safety of dealing through stock exchange.

6. Liquidity : The main function of stock market is to provide ready market for sale and purchase of securities. The presence of stock market gives assurance to investors that their investment can be converted into cash whenever they want. The investors can invest in long term investment projects without any hesitation, as because of stock exchange they can convert long term investment into short term and medium term or even liquidate their investments whenever they want.

7. Better Allocation of Capital : The shares of profit making companies are quoted at higher prices and are actively traded so such companies can easily raise fresh capital from stock market. The prices of securities traded in the exchange indicates the opportunities for investments. So stock exchange facilitates allocation of investors fund to productive and profitable channels.

8. Contributes to Economic Growth : In stock exchange. securities of various companies are bought and sold. Investors invest in companies which give good return on investments. Hence companies, too, try to invest in most productive investment projects. This leads to capital formation as well as economic growth.

9. Providing Scope for Speculation : To ensure liquidity and demand or supply of securities the stock exchange permits healthy speculation of securities.

10. Promotes the Habit of Savings and Investment : The stock market offers



attractive opportunities of investment in various securities. These attractive opportunities encourage people to save more and invest in securities of corporate sector rather than investing in unproductive assets such gold, silver, etc.